THE QUANTITATIVE THEORY OF PRICES

Though all the facts pertaining to the quantitative theory of prices are either known or ascertainable, economists are still divided over the truth of the theory, which is nevertheless most fundamental in the science of money. The desirability of attaining unanimity no one will question, for, so long as economists are divided, legislators should be pardoned for many of their errors in monetary legislation.

As the truth or error of the theory can perhaps be more easily shown by analyzing transactions in which money either directly or indirectly is used, than by any other method, we shall examine first the simple conditions of a retail purchase. A person stands at a counter wishing to buy a hat. Regarded narrowly and immediately by the seller, the purchaser's ability to fulfil his wishes depends on the quantity of money at his command. If the purchaser has enough to pay the price, the seller is eager to make the exchange; otherwise he is not, unless he knows the customer and is willing to give him credit. If this were the entire transaction, and all other retail transactions were similar, it could be truly said that retail prices depend on the quantity of money. In other words, money is the other side of the exchange, is absolutely essential, leaving out the custom or possibility of credit.

But is this the entire transaction? Before going farther, however, let us inquire into the effect of giving credit to a customer who has not the money in pocket to pay. Does the crediting of a sale to him enhance the price? Generally it does not the immediate price; for the retail dealer, as everyone knows, rarely has two prices, one for cash and one for credit customers. There may, indeed, be exceptions; but the seller is so eager to part with his goods that he tempts his customers by offering them credit, instead of requiring money in exchange. It is true that some losses are sustained by this practice, and to cover these a higher price is put on all goods, which cash and credit customers alike pay—a kind of insurance; and in this respect, by giving credit, prices are enhanced.

Does the giving of credit increase sales, the increase in turn

enhancing prices? Probably credit transactions do increase sales. A workingman intends to save a portion of his earnings and with them to buy a house. His thriftless wife, however, is tempted by the subtile magic of credit to buy so many other things that her husband never succeeds in executing his good intention. Of course, there is a limit to his credit, it cannot exceed his income, or sooner or later he will fail to pay, and through this costly experience to all parties his credit will be lessened or cut off entirely. But it would seem to follow that, if credit be thus extended and purchases also, the increased demand of purchasers would lead producers to demand higher prices, which purchasers in selling would be obliged to follow. While this generalization contains some truth, it cannot be carried too far; for doubtless cases happen every day in which a change in demand, either in the way of increase or of decrease, does not affect prices either in raising or in lowering them.

Again, the workingman's thriftless wife, by purchasing on her husband's credit, prevents him from accumulating means to buy a house; consequently the prices of houses may remain stagnant from lack of demand which, except for credit, would arise for them. So, while there may be a rise of prices in one direction, caused by the operations of credit, there may be a greater or less decline in other things in which no credit, or only partial credit, may be given.

But we are not sure that prices are raised even by credit operations in the manner above explained. For all goods payment must be made, and the workingman cannot, by buying on credit, increase the means of payment. This is just the same—no greater, no less—whether he buys for cash or on credit. And if he cannot in the long run buy beyond his means to pay, how can it be said that the giving of credit enhances prices, since in the end no more commodities are, or can be, sold by the credit than by the cash-down system? Is not the only effect, therefore, of credit to hasten sales; to effect sales today which otherwise would be postponed another week, month, or for a longer period?

It is possible that by receiving credit the workingman is stimulated to work harder in order to pay for his house; in other words, to escape from debt; and by putting forth a greater effort, thus increasing his income, he may stimulate prices. But the reverse of this may result. He may become discouraged by his debt, work less, purchase less, and production fall off accordingly.

It is true that under the credit system many purchases are made for which buyers are eventually unable to pay, and the volume of purchases to this extent is larger by giving credit. But is the increase large enough to affect prices? I know of no way to answer the question.

The relation between the amount of credit given to purchasers and their ability to discharge their credit obligation may be illustrated by taking a community in which laborers depend chiefly on a small number of stores for their supplies. So long as they are regularly employed, the storekeepers do not hesitate to sell to them; as soon as their employment is reduced or cut off, their credit is curtailed. Thus the relation between the credit given and the debtor's ability to pay in the future is very close. Of course, it is not so easy for sellers in the larger as in the smaller places to watch their debtors, but the principle is quite the same; no seller will give credit beyond the supposed ability of the buyer to discharge his obligation.

We have looked on the purchases of the workingman because it is easier to diagnose his case than the case of other classes of purchasers. The nature of the transaction between him and the seller of goods is clearly seen; not less clearly too the exchange of his labor for the means wherewith to make purchases. As for the relation between sellers of other commodities than labor and other purchasers, if an analysis were made, would not the result be the same? Surely the seller is after payment from all, and he will in no case give credit unless assured of the purchaser's ability to respond at the end of the credit period.

Thus credit is simply a money payment deferred; we are still clearly in sight of money that is to be given in exchange for things purchased; and if the inquiry we are making should stop here, the quantitative theory would clearly explain all.

Before leaving this preliminary inquiry concerning credit, the profit-margin in sales and purchases should be considered. A seller may give credit acquiring a smaller profit than he would in a cash sale; a producer may sell at the old price—though the demand may have strengthened—for reasons that are satisfactory to himself. But there is no reason in the economic constitution of things why a change of price in a commodity at one given place of exchange should cause change of price at every exchange afterward; every seller expects to receive a profit which is an elastic

element and within his control. If, for example, a shoe-dealer is ordinarily making 10 per cent. clear profit on shoes when selling them at the same prices as his competitors, he can, if so minded, lessen prices, and if the profit still remaining is enough to preserve his solvency, no other prices will necessarily be changed by reason of his division of profits with his purchasers. In explaining prices, therefore, the margin of profits should be kept always in sight, because the prices of a dealer or of all dealers in a given place may vary somewhat without affecting prices elsewhere.

Having now disposed of the influence of credit, and of the profit-margin, let us return to cash transactions. The customer exchanges his money for cloth and goes away. But how did he come by his money? By labor, or by exchange of something else for money. And the quantity of money he has acquired has depended on the demand for his labor or other commodity by some possessor of money. A fine illustration may be cited. Everyone in our country a few years ago was rejoicing over the condition of general prosperity. The millions were employed; consequently they had ample means for making purchases, which, in turn furnished employment to others to produce. Then followed a series of labor strikes, during which a vast army ceased to labor, their earnings were greatly lessened or utterly cut off, and consequently they had less money to exchange for the things ordinarily obtained and consumed. A decline so great in the power to purchase affected production, and after a while the prices of many things declined. But some manufacturers, not believing that a reduction would stimulate trade, did not lessen their prices. And why not? Because reduction would not affect the purchasing power of the strikers; so long as that vast army of laborers were without employment they would be without means to purchase, whatever might be the price of things. Yet during this period the quantity of money had not diminished. The production of gold was going on without hindrance, the national banks as well as the government were increasing somewhat the currency supply, just as they had been doing for many months previously; and the agencies of monetary circulation had not been impaired by any unnatural event. What, then, had caused the diminution in sales and decline in prices? Surely not the lack of money, for the quantity had not been lessened. The demand for goods fell off because the employers of labor could not exchange their money for labor, and consequently laborers had

less wherewith to make purchases. In other words, prices fell off because the workingmen would not, as they had previously done, exchange their labor for goods or work to acquire the money needful to buy goods, which is the same thing. Is not this explanation, though brief, essentially complete?

An upholder of the quantitative theory insists that, if there were no money, the workingman could not exchange his labor therefor. Of course, he could not. If, then, he is after money, there must be some relation between the monetary supply and the labor offered in exchange. We do not question the existence of such a relation. But the truth, in our judgment, is that the quantity of money at almost all times is so large that the prices of labor and other things exchanged therefor are not affected by the quantity. In other words, money is a commodity like labor, flour, hats, and all other exchangeable and desirable things; but the existing quantity of money is so large and fluid that, the prices of other things having become adjusted to it, they are affected, so far as money can affect them, only by extraordinary changes in the quantity.

If this statement be put in the following form, is it not essentially similar? An employer of labor possessing ample wealth or credit, gives perhaps hardly a thought to the quantity of money he may have when employing men. In truth, his bank account is not very large, and surely not large enough to pay them. But he expects to obtain money from the sale of goods, produced, it may be, by the labor he has employed, or by borrowing, and consequently the fact of paying his men in money is not an element determining the price he will pay them. He will pay them just the same, whether his bank account is large or small; whether he expects to receive the needful money from the sales of goods or from loans. The supply of money is so ample, so near at hand, that it cuts no figure whatever in making contracts with his employees.

In one respect money is unlike every other commodity, and this fact must be kept in sight. Though desired by everybody, it serves only a temporary use; everyone is just as eager to part with it as to obtain it. A man buys a beefsteak for his breakfast, eats it; from the economic view it is consumed, but the money is not. The butcher may give the twenty-five cents he received the next moment to an errand boy, who in turn pays it back to the butcher for another steak. Consequently it is always in circulation, like the waters in the ocean. While, therefore, the volume of products seeking

exchange for money may greatly expand, the money needed to effect their exchange is usually sufficient, because it is so fluid, because such effective substitutes can be used therefor, and because payments in many cases are by agreement delayed.

Money with respect to its rapidity of circulation may be divided into three parts: first, the portion among the people, in their pockets, which circulates with varying rapidity in different sections of the country; second, the portion on deposit in banking institutions, through which agencies its circulation is vastly accelerated; thirdly, the portion which circulates least rapidly, that is held by monetary institutions as a reserve for paying depositors, or other liabilities.

But it may be asked: "Is not the varying interest rate an infallible test of the changing demand, a true barometer, and does not the change of interest rate for money affect the prices of other things?" Let us, in the way of answer, look at some actual cases. Two merchants are competitors in business. The one employs his own capital; the other, borrowed money. Must not the latter sell his goods at as low price as his competitor in order to win and retain trade? The interest must come out of his profit-margin. Again, two merchants borrow more or less, paying varying rates of interest; but this fact will not reveal itself in different prices of goods. Let us take another case of merchants in a community where all borrow, and where the interest rate, very high perhaps, has been taken into account in fixing the price for their goods in the beginning. Nevertheless, should variations in interest occur, these would hardly be declared in new prices for their goods, save under extraordinary conditions. In short, we think it can be maintained, though much is said about the varying rates of interest, that the *variation* in mercantile loans is too small to form an element of influence in changing the prices of general commodities.

On the other hand, it is admitted that, under exceptional conditions, the opposite statement may be the truth. Thus, in New York City, a few banks, taking advantage of the peculiar conditions existing there for balances demanded by western banking institutions, often exact a high rate of interest from borrowers on call; so high indeed that some would-be borrowers prefer to sell their stocks, even at losing prices, rather than pay. In other words, the high rates exacted check speculation and perhaps force liquidation. Such conditions may exist in other markets, but only on rare occasions.

They are in every sense exceptional, and not the occurrences of normal business.

The fact, therefore, that the demand for money as a commodity changes, and that these changes are registered in the varying rates of interest is little or no indication that the varying demand has any appreciable effect in the way of changing prices of the commodities bought and sold. Proof of the assertion lies all around us and may be readily observed. An increased demand for money and higher interest rate may not lessen buying and weaken prices, nor a diminished demand and lower rate stimulate them. Prices rise and fall quite independently, and generally without regard to the interest rate; this is the common experience of the mercantile world.

But it may be again asked: "Is not the object of obtaining money to exchange other things therefor? And, if so, will not an advance in the interest rate (which means an inadequate supply) check loans, and thereby diminish purchases, and thus ultimately lessen prices?" To this inquiry there is a complete answer. First, many loans are made to pay for past purchases. In other cases, perhaps in the larger number of cases, a loan is contemporaneous with a purchase; in other words money is borrowed to devote to the payment of a particular purchase. The higher rate, if demanded, has not prevented the purchase, for it has been made. Again, if the effect of higher rates were to check purchases, the check ought to prove an unfailing corrective and bring rates down.

The way is now prepared to see clearly our ground. Once exchanges were usually effected by means of barter, and they still are on a colossal scale; while the smaller ones are effected by the use of money. The civilized world having become accustomed to the mode of effecting the smaller exchanges, and having obtained a sufficient supply of money for this purpose, we contend that fluctuations in prices are rarely caused by any changes in the monetary medium. What has led many people astray is a wrong interpretation of facts. Thus, during the American Civil War there was a vast increase in the monetary medium, and also in prices and in the volume of business. Soon after the close of the war the government began a policy of contraction, with the view to restoring specie payments. Soon business began to wither and dry up, and many ascribed the unwelcome change to the action of the government in contracting the currency. The real cause was the decline in the

government demand for the chief supplies of life, which had been enormous. The monthly withdrawal of $4,000,000 of currency had no more real effect in curtailing business, except in the imaginations of men, than the movements of the stars.

More recently another wave of depression passed over the country during the demonetization of silver, and many, with as little reason, accredited the depression to this cause. In both cases there were a diminution in the volume of business and a decline in prices, solely because there was a smaller demand for goods, not because there was an insufficient supply of money to effect exchanges.

Lastly, the increase in the gold supply has no more effect in expanding business and raising prices than a thunder-shower would have in raising the waters of the Atlantic. Prices rise and fall every day, week, and month, and yet the volume of currency, including the supply of gold, is constantly advancing. The fluctuations vary greatly, but of late years there has been a strong general tendency upward; yet sooner or later the unwelcome visitation of a business depression will come with a decline in prices, just as surely as if not a single dollar had been added to the world's gold supply.

It is true that, under abnormal conditions, both the quality and quantity of money may be a price-making factor. Thus, if the money in use is debased, prices will fall; the workingman will demand more for his labor to cover the depreciation and so will the merchant for his goods. The American people were treated to an illustration on a great scale during the Civil War, when an excess of paper money was issued, causing a general fear of its redemption. It is true that the great rise of prices at that time was not a mere registration of depreciated currency; a part of the rise was caused by an enormous demand for the entire range of commodities, as has been the case in the like rise in prices within recent years while the currency has been in a normal condition.

Again, there may be a sudden unusual demand for more money, which, if not met, may result in the general fall of prices. Thus years ago millions of money were hoarded by persons having large payments to make—manufacturers and the like—through fear that, if the accumulation were not made, they would not have the means needful for pay-days and to meet varied obligations. In other words they distrusted the ability of the bank to meet all demands for deposits. Manufacturers knew that a steady depletion of the

monetary fluid was going on, and feared the consequences. Such a state of things retards the execution of many enterprises, fewer men are employed, they have less money to spend, and prices fall, Under these conditions it may be truly said that prices are affected by the insufficient monetary supply. These abnormal conditions are never long endured. Moreover, if they were to become permanent, prices would harmonize with the diminished monetary supply, and things would go on as before.

Passing from retail to wholesale prices, what shall be said of them? Let us suppose that a wholesale buyer purchases on long credit. He informs the vendor that he has no means to pay until he can sell the goods and collect from the retail buyer. This was the condition of much of the South American trade a few years ago, and probably still is to some extent. Sales were made on long time to enable the buyer to make collections before paying. Of such sales it may be asserted that the prices depend to a large degree on the prices that can probably be obtained by the wholesale buyer from the retail buyer; while the price he in turn can command depends on the quantity of money the final purchasers possess; who, in turn, must depend for obtaining it on the sale of their labor or their products; in other words, on general prosperity.

Suppose, however, that the wholesale purchaser does not wish to wait so long, but resorts to credit, are prices anywise different—leaving out the question of insurance for bad debts, and other elements of that nature lying outside the field of dispute—from what they would be were these larger payments made in money? The means of payment does not enter into the proposed prices for the reason that he possesses an ample fund, or can obtain it for the asking, knowing there is ordinarily an unlimited supply within his command.

There may be indeed two prices, one for cash and another for credit. But this does not, we conceive, affect the question of purchasing one way or the other. If the buyer has not the money to pay and borrows, in the purchasing and estimating his future profit the interest paid becomes simply an element in his profit-margin. Even if he had money enough without ever borrowing, the same consideration would, in another way, enter into his calculation. If he cannot get more than ordinary interest on his money in the way of profit in his business, he will not continue

therein with all its risks and cares. We may, therefore, dismiss interest as a price element from our inquiry.

Returning therefore to the statement that there is an ample supply of money, under ordinary conditions in the commercial world, where the banking system is fully developed and the credit of borrowers is established, what proof is needed to remove all doubt of the correctness of the statement? Suppose in the village of Aix there are four banks, and that yesterday morning each of them had a loanable fund of $10,000. Suppose they lend it, and that during the day the borrowers check it all out, while the receivers of the checks deposit them in the four banks, though not in all cases in the bank on which the checks were drawn. Early the next day the checks are cleared, and the four banks at the end of the settlement find themselves in possession of $10,000, the same as the day before. Can they not lend this money if it is wanted? It has performed its office; has returned to the banks; and they are just as free to lend it as they were on the previous day. And this process, under the same conditions, could be repeated many times with safety.

Is there any forgotten element in this analysis? The bank on its side is not dealing with mere wind, in mere credit, as so many writers have asserted, but with money, a real thing as much as corn or iron. The bank loaned money yesterday, not credit; it has the same amount of money, not credit, to lend today; and it can make a second series of loans just as safely as it made the first.

Let us illustrate the statement in another way. Formerly, when the state banks made loans based chiefly on their own notes, it may be truly said that the operation of lending consisted in exchanging individual credit for bank credit; a narrow or more local credit for a broader or more general one. It must, we think, be admitted by everyone that wherever that system prevailed money was an unlimited supply, bounded only by the supply of paper and the capabilities of the printer. Whoever wanted bank credit could get it so far as the medium of payment entered into the operation. There was never lack of supply.

Today the banks pay in money. It is true that a portion may be their own notes; but the means of payment is radically changed. The ability to make notes, as all know, is rigidly limited, and they are based essentially on wealth, actual or potential. But while

banks no longer lend their credit as in former days but money[1] —by which we mean gold, silver, and government and bank notes, excluding checks, and all other notes of private or municipal corporations and individuals for money—yet the supply of this for lending purposes increases in the manner described, and consequently is, under *ordinary conditions,* practically unlimited.

One may, however, ask: "Is it really true that four banks had $40,000 on the second day to lend? Were they not required, let us say, to keep 25 per cent. of it as a reserve to answer the calls of the depositors? And, if this be true, would not the fund, after relending a few times more, be exhausted?" Two answers may be made to this inquiry. In many states and places no fixed reserve fund is required or kept. But suppose law and usage require this to be done, as it surely ought, the objection may be easily answered in another way. There are always many depositors who do not desire loans, and while their deposits and withdrawals can never be precisely foretold, there is a balance in their favor that may be loaned, usually much larger in amount than the reserve that need be kept. In other words, assuming that of the $40,000 above mentioned only $30,000 can be loaned it may also be assumed that other depositors or borrowers have put into the bank at least $10,000 more during the day, and thus have kept the loanable fund good. For we must not forget that, under ordinary conditions, all loans by banks have their correlative in payments to them.

Let us look at the cycle of transactions in a large city such as New York or Boston. Loans are desired of banks, and applications are granted. The applicants may desire new funds for several purposes—to pay debts, or to strengthen their accounts at the bank—without the thought of any special use of the money. A portion of the loans thus granted and credited to borrowers is checked out, some of the checks are sent away from the city, the others are quickly deposited in the city banks. During the day fresh deposits of money and checks are received in payment of merchandise and notes, and other obligations. Every day an exchange of checks between the banks is made, and the differences are paid in money. What is the monetary condition of the banks at the end of such a settlement? Ordinarily the sum of money is quite as large as the

[1] Of course, the borrower is seeking capital, but, as between bank and borrower, the capital takes the form of money, or its representatives, or substitutes.

day before; and the fund can be loaned again without regard to the action of the banks on the previous day. This is a bald statement of fact, which anyone can easily verify by an inquiry of any banker.

"Here is a vast amount of loans," declares same doubting reader, "which the banks have granted, but have not in fact paid. How can they take the money they have once lent and lend it again?" The reply is: "How dare they lend for two, three, or even four months, the deposits they have agreed to keep and return on demand? May they not be all demanded, and what will then happen?" This is possible, and more than once has happened. But bankers know from long experience that they can safely lend the larger portion, because fresh supplies may be expected from depositors and borrowers.

Let us not forget that in wholesale transactions, if money is taken from the bank, it flows back again in most cases very quickly, especially if used in the same city or vicinity. Generally, however, money for large payments is checked out, not drawn out, and the checks soon find their way back to the drawee bank or to other banking institutions. Indeed, as everyone knows, the larger part of the money lent is not disturbed at all, and can be, and is, lent again and again with safety.

Let us also keep in sight the fact that in this country many, perhaps most, of the larger business concerns keep an account with one or more New York banks, and make many payments through them, thereby expediting settlements and economizing the use of money. In general, the trend of business throughout the greater part of the commercial world is to use money more rapidly, to make less and less actual use of it, to keep more and more on deposit in the banks, and thus to swell the fund that may be loaned.

An objector may assert there must be some flaw in this theory; otherwise a bank by the simple process of lending could heap up a vast deposit. Is it possible to create something, a real deposit, out of a negative, a debt? Suppose A wishes to borrow $50,000, to make a payment for that amount, but dares ask for only one-fifth of that sum, and that his application is granted. He does not draw out the money, however, and a few days later makes a similar application. The bank, having his undrawn loan, and perhaps more, grants the request; and the process goes on until he has acquired his loan of $50,000, which is all lying in the bank. Others, seeing the bank's statement, wonder at the rapid increase of the bank's

deposits, and how it happened. Suddenly the amount is at once withdrawn or demanded. The bank, not expecting or prepared for such a demand, does not have that amount on hand. The objector triumphantly exclaims: "Behold how your increase has vanished! Does not this prove that you cannot build up deposits on loans?" Well, if you cannot, how has the City National Bank of New York acquired its $140,000,000? Is not every dollar of this huge sum a debt which the bank owes to its depositors?

The only difference between the case of borrower A and other depositors is this: He is acquiring through the bank's action a deposit of money, all of which he intends to withdraw; the other depositors have no such intention. It is a risky thing to permit a man to create a deposit under such circumstances, and no bank will knowingly do it, for such action jeopardizes a bank's existence. But it is possible for a bank to do such a thing, lend the money of a depositor over and over again without any harm to itself. In truth, banks are doing this thing every day. On the other hand, there is the ever-present danger that more money will be demanded by depositors than the bank possesses, and this brings me to the limitations of the above theory.

Practically an unlimited supply exists only during normal conditions. And the first limitation arises when a loan is asked largely in excess of the ordinary amount. No bank professes to be prepared for this, and the payment of such a sum may, and generally does, enter into the price of the thing for which it is to be used. Thus, if Mr. Morgan negotiates for the purchase of a railroad, the means and time of payment doubtless affect the price. No bank expects to make a $10,000,000 loan save on notice, and only a very few under any conditions. Unlimited supply must therefore be confined to the wants of ordinary borrowers—merchants, manufacturers, and others engaged in the ordinary operations of production and exchange.

The second limitation is found in the fact that the unlimited supply exists only while business is in a normal, regular condition. When depositors, through fear of the solvency of their bank or for other reasons, begin to feel that they cannot obtain all the money that they may need to pay their notes or other demands that are imperative, as usual, and therefore make unusual demands, the unlimited supply no longer exists; and under this condition the

means of payment becomes a price-making factor, and often a very important one.

It is not difficult to understand the nature of this change. Credit has not collapsed in the sense that banks have less faith in the ability of men to pay than before, but they have not the means to help borrowers. Why? Because depositors are withdrawing and withholding the means and hoarding it. The situation is always serious when depositors begin to make unusual demands for their deposits; but the situation is still more intensified by their withholding the money flowing to them from ordinary sources, instead of depositing it as they do at other times. By this double drastic process of tapping the life-blood of a bank, its funds for making payments of any kind to depositors or borrowers may be quickly exhausted. On the other hand, as soon as depositors recover from their scare and put their hoarded money back into the ordinary channels of circulation, and cease to impound any more, the unlimited bank supply again exists.

Thus it will be seen that the unlimited supply exists only while this wonderful go-between, money, moves around society under normal conditions; that is, so long as faith between banks and the commercial world outside is unquestioned. Just as soon as men begin to fear that they cannot get actual money, not credit, needed to transact their business and build dams to intercept its ordinary movement, it inevitably follows that loan operations, transactions requiring money payments of every kind, may suddenly and temporarily become uncertain.

What, then, is the doctrine of our paper? Once people exchanged their goods directly with each other; later money was invented to facilitate exchanges by parting with, or bartering, goods not desired for money, and with this obtaining other goods that were needed. The world of exchange accommodated itself to this new condition and obtained in due time all the money required for the purpose. By far the larger portion, by reason of its very nature, unlike any other commodity, is kept in constant use, and the amount is so large that exchanges are thereby neither impeded nor accelerated; only extraordinary withdrawals or additions have this effect. Furthermore, while exchanges are constantly assuming larger proportions annually, if there were no corresponding addition to the monetary supply, there would be but little, if any, danger of a dis-

arrangement of prices, for the reason that the greater volume of exchanges is effected, as we have shown, through the extension on a large scale of the modern method of barter, and only comparatively small sums of money are needed to pay the balances resulting from these transactions.

And herein is the answer to the belief, entertained by some persons, that the need for more money is greater than it was a few years ago, because of the general rise of prices. All the larger payments are paid in checks, and these are discharged, as we have already explained, with the use of only a small amount of money. A larger sum to discharge employers' pay-rolls is the only important additional demand; and this in turn is often met by giving checks instead of money—an improvement with many valid reasons in favor of the innovation.

It is of the highest importance that this question should be studied until sound conclusions are reached, for the reason that, when the next business depression comes—which, let us hope, is far off—a large party of business-restorers will doubtless spring up, who, if not finding a cause of the depression in some kind of currency contraction, will find an infallible cure in its expansion. All, therefore, should be taught how small a part the currency plays in changing prices or facilitating exchanges, so long as the existing quantity is kept sound and employed in its proper uses. There should always be kept in the front in every discussion of this subject the familiar fact that the people are after money only for temporary use, as a medium for getting other things. What they really are after is land, stocks, merchandise—money cutting no important figure in obtaining these things, not affecting their prices, unless the supply for some unusual reason has greatly changed.

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